

**Report of the
PUBLIC EMPLOYEE RETIREMENT
ADMINISTRATION COMMISSION
on the Examination of the
Marblehead
Contributory Retirement System
For the Four Year Period
January 1, 1999 - December 31, 2002
PERAC 02: 09-052-22**

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March 30, 2004

The Public Employee Retirement Administration Commission has completed an examination of the **Marblehead** Retirement System pursuant to G.L. c. 32, s. 21. The examination covered the period from January 1, **1999** to December 31, **2002**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission. There are no significant audit findings to report.

We commend the **Marblehead** Retirement Board for the exemplary operation of the system.

In closing, I acknowledge the work of examiner James Ryan who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton
Executive Director

Marblehead Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

FOR THE PERIOD ENDING DECEMBER 31,				
ASSETS	2002	2001	2000	1999
Cash	\$132,798	\$141,239	\$8,062	(\$3,845)
PRIT Cash Fund	10,328	82,488	225,636	235,420
PRIT Capital Fund	49,164,035	54,689,426	58,142,736	59,399,317
Interest Due and Accrued	0	0	0	0
Accounts Receivable	207,524	206,345	424,904	395,633
Accounts Payable	(3,317)	(14,629)	(8,305)	(9,167)
TOTAL	<u>\$49,511,368</u>	<u>\$55,104,869</u>	<u>\$58,793,033</u>	<u>\$60,017,358</u>
FUND BALANCES				
Annuity Savings Fund	\$11,481,722	\$10,796,984	\$10,205,818	\$9,885,333
Annuity Reserve Fund	4,207,938	4,200,760	4,008,989	3,778,955
Pension Fund	5,563,798	6,446,323	7,169,658	7,624,261
Military Service Fund	6,056	5,973	5,861	5,741
Expense Fund	0	0	0	0
Pension Reserve Fund	28,251,854	33,654,829	37,402,707	38,723,068
TOTAL	<u>\$49,511,368</u>	<u>\$55,104,869</u>	<u>\$58,793,033</u>	<u>\$60,017,358</u>

Marblehead Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (1999)	\$9,289,470	\$3,775,405	\$7,843,508	\$5,617	\$0	\$28,015,142	\$48,929,143
Receipts	1,130,326	107,637	2,849,488	124	78,561	10,707,828	14,873,963
Interfund Transfers	(389,435)	389,337	0	0	0	98	(0)
Disbursements	(145,027)	(493,424)	(3,068,735)	0	(78,561)	0	(3,785,748)
Ending Balance (1999)	9,885,333	3,778,955	7,624,261	5,741	0	38,723,068	60,017,358
Receipts	1,175,632	116,047	2,828,609	121	95,856	(1,320,877)	2,895,387
Interfund Transfers	(619,062)	618,546	0	0	0	516	0
Disbursements	(236,086)	(504,559)	(3,283,212)	0	(95,856)	0	(4,119,712)
Ending Balance (2000)	10,205,818	4,008,989	7,169,658	5,861	0	37,402,707	58,793,033
Receipts	1,308,248	124,982	2,761,224	111	307,299	(3,747,919)	753,946
Interfund Transfers	(610,409)	612,409	(2,041)	0	0	41	(0)
Disbursements	(106,673)	(545,620)	(3,482,518)	0	(307,299)	0	(4,442,110)
Ending Balance (2001)	10,796,984	4,200,760	6,446,323	5,973	0	33,654,829	55,104,869
Receipts	1,275,441	125,243	2,742,145	84	318,531	(5,402,975)	(941,531)
Interfund Transfers	(461,437)	458,624	2,812	0	0	0	0
Disbursements	(129,266)	(576,690)	(3,627,483)	0	(318,531)	0	(4,651,969)
Ending Balance (2002)	<u>\$11,481,722</u>	<u>\$4,207,938</u>	<u>\$5,563,798</u>	<u>\$6,056</u>	<u>\$0</u>	<u>\$28,251,854</u>	<u>\$49,511,368</u>

Marblehead Retirement System

STATEMENT OF INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2002	2001	2000	1999
Annuity Savings Fund:				
Members Deductions	\$1,083,372	\$1,025,941	\$951,751	\$855,247
Transfers from other Systems	4,784	48,539	6,459	35,623
Member Make Up Payments and Redeposits	40,558	49,345	19,483	43,040
Investment Income Credited to Member Accounts	<u>146,727</u>	<u>184,423</u>	<u>197,938</u>	<u>196,415</u>
Sub Total	<u>1,275,441</u>	<u>1,308,248</u>	<u>1,175,632</u>	<u>1,130,326</u>
Annuity Reserve Fund:				
Investment Income Credited Annuity Reserve Fund	<u>125,243</u>	<u>124,982</u>	<u>116,047</u>	<u>107,637</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	38,034	34,174	35,150	34,137
Received from Commonwealth for COLA and Survivor Benefits	283,112	305,678	323,359	345,251
Pension Fund Appropriation	<u>2,421,000</u>	<u>2,421,372</u>	<u>2,470,100</u>	<u>2,470,100</u>
Sub Total	<u>2,742,145</u>	<u>2,761,224</u>	<u>2,828,609</u>	<u>2,849,488</u>
Military Service Fund:				
Contribution Received from Municipality on Account of Military Service	0	0	0	0
Investment Income Credited Military Service Fund	<u>84</u>	<u>111</u>	<u>121</u>	<u>124</u>
Sub Total	<u>84</u>	<u>111</u>	<u>121</u>	<u>124</u>
Expense Fund:				
Expense Fund Appropriation	0	0	0	0
Investment Income Credited to Expense Fund	<u>318,531</u>	<u>307,299</u>	<u>95,856</u>	<u>78,561</u>
Sub Total	<u>318,531</u>	<u>307,299</u>	<u>95,856</u>	<u>78,561</u>
Pension Reserve Fund:				
Federal Grant Reimbursement	3,047	6,497	0	0
Pension Reserve Appropriation	0	0	0	0
Interest Not Refunded	2,089	1,936	2,538	1,383
Excess Investment Income	<u>(5,408,111)</u>	<u>(3,756,353)</u>	<u>(1,323,415)</u>	<u>10,706,445</u>
Sub Total	<u>(5,402,975)</u>	<u>(3,747,919)</u>	<u>(1,320,877)</u>	<u>10,707,828</u>
TOTAL RECEIPTS	<u>(\$941,531)</u>	<u>\$753,946</u>	<u>\$2,895,387</u>	<u>\$14,873,963</u>

Marblehead Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2002	2001	2000	1999
Annuity Savings Fund:				
Refunds to Members	\$86,643	\$55,128	\$145,855	\$49,273
Transfers to other Systems	42,622	51,545	90,230	95,754
Sub Total	<u>129,266</u>	<u>106,673</u>	<u>236,086</u>	<u>145,027</u>
Annuity Reserve Fund:				
Annuities Paid	566,803	545,620	504,559	483,760
Option B Refunds	9,887	0	0	9,664
Sub Total	<u>576,690</u>	<u>545,620</u>	<u>504,559</u>	<u>493,424</u>
Pension Fund:				
Pensions Paid				
Regular Pension Payments	2,627,850	2,482,245	2,236,348	2,070,013
Survivorship Payments	28,794	26,433	25,390	24,650
Ordinary Disability Payments	157,541	154,571	159,232	159,060
Accidental Disability Payments	321,545	306,210	325,756	291,540
Accidental Death Payments	141,020	138,887	146,590	118,980
Section 101 Benefits	9,910	10,977	10,225	8,952
3 (8) (c) Reimbursements to Other Systems	57,710	57,517	56,313	50,288
State Reimbursable COLA's Paid	261,157	281,788	299,467	321,363
Chapter 389 Beneficiary Increase Paid	21,954	23,890	23,890	23,890
Sub Total	<u>3,627,483</u>	<u>3,482,518</u>	<u>3,283,212</u>	<u>3,068,735</u>
Military Service Fund:				
Return to Municipality for Members Who Withdrew Their Funds				
Expense Fund:				
Board Member Stipend	0	0	0	0
Salaries	68,032	67,099	64,573	60,728
Legal Expenses	8,893	5,414	3,760	1,922
Medical Expenses	0	0	0	0
Travel Expenses	345	808	700	1,207
Administrative Expenses	24,388	9,020	26,823	14,705
Furniture and Equipment	0	0	0	0
Management Fees	216,874	224,959	0	0
Custodial Fees	0	0	0	0
Consultant Fees	0	0	0	0
Sub Total	<u>318,531</u>	<u>307,299</u>	<u>95,856</u>	<u>78,561</u>
TOTAL DISBURSEMENTS	<u>\$4,651,969</u>	<u>\$4,442,110</u>	<u>\$4,119,712</u>	<u>\$3,785,748</u>

Marblehead Retirement System

INVESTMENT INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2002	2001	2000	1999
Investment Income Received From:				
Cash	\$651	\$964	\$813	\$931
Short Term Investments	0	0	0	0
Fixed Income	0	0	0	0
Equities	0	0	2,023	0
Pooled or Mutual Funds	1,730,212	1,837,976	1,642,891	11,088,249
Commission Recapture	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL INVESTMENT INCOME	<u>1,730,863</u>	<u>1,838,940</u>	<u>1,645,728</u>	<u>11,089,181</u>
Plus:				
Increase in Amortization of Fixed Income Securities	0	0	0	0
Realized Gains	76,767	0	4,909,619	0
Unrealized Gains	5,615,344	0	0	0
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>5,692,111</u>	<u>0</u>	<u>4,909,619</u>	<u>0</u>
Less:				
Decrease in Amortization of Fixed Income Securities	0	0	0	0
Paid Accrued Interest on Fixed Income Securities	0	0	0	0
Realized Loss	(1,673,616)	(316,059)	0	0
Unrealized Loss	(10,566,884)	(4,662,418)	(7,468,801)	0
Custodial Fees Paid	0	0	0	0
Consultant Fees Paid	0	0	0	0
Management Fees Paid	0	0	0	0
Board Member Stipend	0	0	0	0
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>(12,240,501)</u>	<u>(4,978,477)</u>	<u>(7,468,801)</u>	<u>0</u>
NET INVESTMENT INCOME	<u>(4,817,527)</u>	<u>(3,139,537)</u>	<u>(913,453)</u>	<u>11,089,181</u>
Income Required:				
Annuity Savings Fund	146,727	184,423	197,938	196,415
Annuity Reserve Fund	125,243	124,982	116,047	107,637
Military Service Fund	84	111	121	124
Expense Fund	<u>318,531</u>	<u>307,299</u>	<u>95,856</u>	<u>78,561</u>
TOTAL INCOME REQUIRED	<u>590,584</u>	<u>616,816</u>	<u>409,962</u>	<u>382,737</u>
Net Investment Income	<u>(4,817,527)</u>	<u>(3,139,537)</u>	<u>(913,453)</u>	<u>11,089,181</u>
Less: Total Income Required	<u>590,584</u>	<u>616,816</u>	<u>409,962</u>	<u>382,737</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>(\$5,408,111)</u>	<u>(\$3,756,353)</u>	<u>(\$1,323,415)</u>	<u>\$10,706,444</u>

Marblehead Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

	BOOK VALUE*	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$132,798	\$132,798	0.27%	100
Short Term			0.00%	100
Fixed Income			0.00%	40 - 80
Equities			0.00%	40
PRIT Cash Fund	10,328	10,328	0.02%	
PRIT Capital Fund	<u>49,164,035</u>	<u>49,164,035</u>	<u>99.71%</u>	100
GRAND TOTALS	<u>\$49,307,161</u>	<u>\$49,307,161</u>	<u>100.00%</u>	

* The book value differs from the market value for individually owned Fixed Income Securities which are valued at amortized cost which is the original cost of the investment plus or minus any bond discount or bond premium calculated ratably to maturity. All other investments are reflected at their quoted market value.

For the year ending December 31, **2002**, the rate of return for the investments of the **Marblehead** Retirement System was -8.87%. For the five year period ending December 31, **2002**, the rate of return for the investments of the **Marblehead** Retirement System averaged 3.78%. For the seventeen-year period ending December 31, **2002**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Marblehead** Retirement System was 9.62%.

Marblehead Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all **Marblehead** Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Marblehead Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Marblehead Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Marblehead** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

January 12, 1989

1. Every member or applicant of the Marblehead Retirement System shall be classified for each calendar year according to the extent of his employment by the Town of Marblehead during said year as follows:

A. All individuals who are to be classified in Group 1 and are not regularly employed on a forty (40) hour basis, must work the equivalent of 1,040 hours per year in order to become members of the Marblehead Retirement System.

Marblehead Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

B. Call Firefighters shall receive one (1) year of creditable service for each five (5) years of actual service not to exceed total maximum creditable service of five (5) years, provided that the call firefighter is later appointed a permanent member of the force.

. C. Any provisional, temporary, temporary-provisional, temporary-intermittent, seasonal or permanent-intermittent police officer shall have service calculated pursuant to Paragraph F below, exclusive of any said members who are not permanent police officers as of the effective date of said regulation.

D. A member who is compensated on a full time basis shall be credited with one (1) year of service.

E. If an applicant for membership in the Marblehead Retirement System has service which is part-time, provisional, temporary, temporary-provisional, temporary-intermittent, seasonal or permanent throughout the year, then the Marblehead Retirement Board shall have and exercise full jurisdiction to determine such applicant's eligibility for membership; provided, that such person shall receive annual compensation in excess of two hundred (\$200) dollars or more, except by vote of the Board.

F. If a member's or applicant's work is provisional, temporary, temporary-provisional, temporary-intermittent, seasonal or permanent-intermittent, then the Marblehead Retirement Board shall determine total hours for which said member or applicant was paid regular compensation in any specified year, divide said hours by the average of the actual hours worked during any period of three (3) consecutive years of creditable service for which such rate of compensation was the highest, or on the average annual rate of regular compensation received by such member during the period, or periods, whether consecutive or not, constituting his three (3) years of creditable service preceding retirement, and allow creditable service for a percentage in each year on the basis of said average.

G. The percentage of credit which will be allowed for a partial year of service shall not be greater than the days actually worked, divided by 365, and said credit shall not exceed one (1) year of service.

2. The number of years, months or days (assuming 365 days in any given year) of creditable service to be used in computing the member's retirement allowance shall be taken as the sum of the amount of service credited for each of the years during which the individual was a member of the Marblehead Retirement System.

Marblehead Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

August 30, 2000

Recovery of Earnings in Excess of the Statutory Limitations set forth in G.L. c. 32, § 91A:

If a (disability retiree) of the Marblehead Retirement System whose earnings exceed the limitations set forth in G.L. c. 32, § 91A can demonstrate that a lump-sum payment of said over earnings to the System would result in financial hardship, the Board shall, in its sole discretion, develop a monthly payment schedule to address the member's financial needs, not to exceed six months. If the (disability retiree) elects to utilize said monthly payment schedule, the method of payment shall be by automatically withholding the predetermined amount from the members monthly retirement allowance.

March 26, 2001

The Marblehead Retirement Board will not accept any liability pursuant to the G.L. c. 32 § 3(8)(c) for any service that is rendered in the Town of Marblehead, which did not entitle the employee to membership in the Marblehead Retirement System, unless the employee subsequently becomes a member of the Marblehead Retirement System and purchases said service while employed in the Town of Marblehead.

October 8, 2002

Pursuant to the authority vested in the Commission under G.L. c. 7, § 50, the Board's supplementary rule regarding Authorization for Travel and Travel Related Expenses is approved.

Marblehead Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the City Auditor who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: George B. Snow

Appointed Member:	Anthony M. Sasso	Term Expires:	Annual Appointment
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Elected Member:	Calvon R. Powers	Term Expires:	01/08/06
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Elected Member:	Thomas P. Sullivan	Term Expires:	08/08/05
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Appointed Member:	Robert F. Peck Jr.	Term Expires:	07/16/04
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The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex officio Member:)	\$30,000,000
Elected Member:)	Cray Dowd Insurance Company
Appointed Member:)	
Staff Employee:)	

Marblehead Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by **Price WaterHouse Coopers** as of **January 1, 2002**.

The actuarial liability for active members was	\$36,159,549
The actuarial liability for retired members was	34,862,574
The total actuarial liability was	71,022,123
System assets as of that date were	60,615,356
The unfunded actuarial liability was	<u>\$10,406,767</u>
 The ratio of system's assets to total actuarial liability was	 85.3%
As of that date the total covered employee payroll was	\$13,268,405

The normal cost for employees on that date was 7.50% of payroll
The normal cost for the employer was 7.80% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum
Rate of Salary Increase: 6.00% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2002

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2002	\$ 60,615,356	\$ 71,022,123	\$ 10,406,767	85.3%	\$ 13,268,405	78.4%
1/1/2000	\$ 54,015,622	\$ 63,939,027	\$ 9,923,405	84.5%	\$ 11,833,509	83.9%
1/1/1998	\$ 42,540,300	\$ 55,347,500	\$ 12,807,200	76.9%	\$ 11,093,500	115.4%
1/1/1996	\$ 30,846,700	\$ 40,299,500	\$ 9,452,800	76.5%	\$ 9,275,800	101.9%
1/1/1992	\$ 19,474,000	\$ 35,244,000	\$ 15,770,000	55.3%	\$ 8,476,000	186.1%

Marblehead Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Superannuation	6	12	10	14	9	12	5	12	12	8
Ordinary Disability	1	0	2	0	0	1	0	0	0	0
Accidental Disability	0	2	2	2	1	1	1	0	1	0
Total Retirements	7	14	14	16	10	14	6	12	13	8
Total Retirees, Beneficiaries and Survivors	317	318	322	326	326	331	325	324	325	313
Total Active Members	339	341	357	366	370	379	396	400	417	400
Pension Payments										
Superannuation	\$1,470,409	\$1,522,883	\$1,559,289	\$1,702,156	\$1,788,381	\$1,876,667	\$2,070,013	\$2,236,348	\$2,482,245	\$2,627,850
Survivor/Beneficiary Payments	22,744	22,289	22,242	24,282	24,423	24,184	33,602	35,615	37,410	38,703
Ordinary Disability	127,876	134,977	141,099	134,105	129,993	141,854	159,060	159,232	154,571	157,541
Accidental Disability	226,375	225,416	255,126	309,596	326,945	312,002	291,540	325,756	306,210	321,545
Other	<u>459,134</u>	<u>484,020</u>	<u>502,016</u>	<u>496,380</u>	<u>538,894</u>	<u>534,529</u>	<u>514,520</u>	<u>526,261</u>	<u>502,082</u>	<u>481,844</u>
Total Payments for Year	<u>\$2,306,538</u>	<u>\$2,389,585</u>	<u>\$2,479,772</u>	<u>\$2,666,519</u>	<u>\$2,808,636</u>	<u>\$2,889,236</u>	<u>\$3,068,735</u>	<u>\$3,283,212</u>	<u>\$3,482,518</u>	<u>\$3,627,483</u>